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Management Equity Plans

Handling the rise in demand and complexity

Introduction

Private equity firms know MEPs are a critical tool to incentivize and align management teams—and as participation increases, so too does the administrative burden and tax complexity.

Management equity plans (MEPs) have long played a pivotal role in aligning private equity (PE) firm and investor objectives with those of portfolio companies, their key managers, and executives. These plans typically offer participants equity or similar instruments to enable participation in the growth value. Such arrangements are often seen as critical for management team recruitment, retention, and incentivization in PE-owned businesses. Furthermore, they form a central pillar of private equity firms' ESG strategies, helping return capital to stakeholders working within their portfolio companies. Historically, MEPs were primarily focused on senior management, but recent years have seen notable changes, including broader participation and increased complexity, particularly in companies where operations span different jurisdictions.

This piece explores how MEPs have evolved in recent years, highlighting the challenges posed by broader participation, regulatory diversity, and growing administrative burdens. These developments underscore the importance of having a fit-for-purpose MEP that is efficiently executed, as a well-managed plan can significantly enhance the incentive effect for participants. An effective partner is crucial to ensuring these complex structures are administered smoothly, maximizing their impact on recruitment, retention, and performance alignment.

The evolution of MEPs

Over the past 10 to 15 years, the PE industry has expanded significantly, with private capital owning a growing share of global businesses. According to analysis from McKinsey, PE firms have more than $13.1T USD in assets under management globally, a marked increase from the $3.8T a decade ago. As more businesses are acquired by PE investors, MEPs are deployed more frequently as a critical tool for aligning the interests of managers with investors across industries and geographies.

Noteworthy trends to highlight in the evolution of MEPs include:

- **The growth of international management teams**

  As PE portfolios increasingly consist of larger multinational businesses, many MEPs must take into account various regulatory and tax regimes. Managers may be spread across several jurisdictions, increasing the complexity of administering MEPs. The need to comply with different regulatory frameworks, tax obligations, and treatment in each country creates challenges in keeping incentivization packages consistent and fair to all participants. As a result, it's incumbent on PE firms to navigate these complexities to ensure regulatory and tax compliance while maintaining core alignment and incentivization goals.

- **Broadening participation**

  A significant shift in MEPs is their extension beyond senior management to include tier two and tier three managers, and in some cases, all employees. This change is, in part, driven by PE firms' efforts to align with ESG objectives, which place a greater emphasis on equitable distribution of benefits. The widening scope of MEPs naturally increases administrative costs, as a greater number of participants leads to higher transaction volumes (e.g., more leavers and joiners), requiring more robust management and standardization of processes.

- **Standardization and rationalization**

  As the complexity of MEPs increases, so do the demands for streamlined administration. PE firms increasingly seek to standardize and rationalize MEPs across their portfolios, often turning to outsourcing partners for unified program management. One notable example is the trend towards creating a single MEP for all businesses—within a portfolio and under consistent commercial principles—that reduces administrative burdens and mitigates potential inconsistencies across jurisdictions.

Key considerations for multi-jurisdiction MEP administration

The increased complexity and scale of MEPs present several challenges that firms must address to ensure efficient management.

Ease and cost of administration

As MEPs extend to a larger pool of participants and span multiple jurisdictions, the administrative and implementation costs can increase, following to some degree the increased number of participants and the complexity of the regulatory environments involved. Managing international teams, navigating different tax regimes, and overseeing employee participation across different countries all add considerable complexity. An experienced partner such as CSC can help consolidate administration—delivering cost synergies and ensuring consistency across an investor's portfolio.

Leaver and joiner scenarios

The growing number of participants in MEPs means the volume of leaver and joiner transactions has risen. Managing these scenarios is crucial to avoiding situations where assets become trapped in the MEP vehicle and to ensure predictable exits for participants. Outsourcing providers with expertise in handling these processes can reduce the administrative burden and enhance operational efficiency.

Tax treatment across jurisdictions

Different tax regimes across different jurisdictions can lead to varying net outcomes for participants, depending on location. For example, tax laws in countries like Germany and Sweden make it difficult to use loans to fund MEP participation, and in many jurisdictions, there is a lack of certainty around tax treatment. Managing these complexities requires a deep understanding of local tax laws and close monitoring of changing laws and practice. Working with an outsourcing partner such as Alvarez & Marsal Tax can therefore be invaluable in ensuring compliance and reducing the risk of tax exposure.

Compliance and reporting

MEPs must both adhere to varying reporting requirements across different jurisdictions, and any cadence of reporting desire from a participating company. MEP holding vehicles typically have compliance and reporting obligations, and failure to comply can result in significant penalties. Outsourcing providers, with their expertise in compliance and reporting, can reduce this risk, ensuring that all legal and regulatory obligations are met.

Key vehicles for MEP administration

Selecting the right vehicle for administering MEPs is critical in ensuring successful implementation and operation. There are several options, each with their own advantages and disadvantages, which need consideration for each specific case, and in particular, will vary depending on the location of the participants concerned.

Employee Benefit Trust (EBT) and corporate nominee

Primary use: To hold shares on behalf of employees.

Pros	Cons
Confidentiality	Unallocated trust shares must be primarily used to benefit beneficiaries (but can potentially be sold at market value to non-executive directors, consultants, or other investors)
Can be used as an internal market for shares and facilitate share warehousing and recycling (leavers and joiners)	Trustee retains discretion over unallocated EBT property (but not nominee shares)
Typically tax neutral	Some jurisdictions are unfamiliar with trust arrangements (e.g., France)
Facilitates tax-deferred exchange of securities, allowing participants to manage shares without triggering immediate tax liabilities	
Flexible—can operate alongside other incentive schemes	
Trustees can facilitate share recycling while maintaining control over unallocated shares	
Trustees can act as nominees, easing register-of-members (ROM) maintenance (acting as a nominee should not alter the tax position of the participants)	
Know Your Customer (KYC) exemption for share incentive schemes	
Ease of exit (single selling shareholder)	

Corporate holding vehicles (commonly known as ManCos)

Primary use: Participants acquire shares in the ManCo which, in turn, invests in the portfolio company.

Pros	Cons
In certain jurisdictions (e.g., the Nordics), these may assist in tax deferred reinvestment	Need to structure to ensure no tax arises at ManCo level
	Can complicate exit if it's advantageous for a buyer to acquire ManCo (though the buyer is normally reluctant to do this)

Partnership

Primary use: For flexible ownership structures, especially in certain regions (e.g., Germany and Luxembourg), often to overcome administrative problems with issuing and transferring shares.

Pros	Cons
More familiarity in certain jurisdictions (especially Germany)	Partnership interests can complicate the tax analysis
Acquiring and transferring partnership units can be easier than acquiring and transferring shares of companies in certain jurisdictions (e.g., Netherlands, Germany, Luxembourg)	May make the tax-deferred exchange of securities more difficult
Confidentiality	
One entity as the selling shareholder on exit	
Typically one partner acts as general partner to whom the partners delegate decision-making power; this general partner can be appointed by the investor	

Conclusion

MEPs have evolved significantly in recent years, with broader participation, increased international complexity, and the need for consistency across jurisdictions. As these schemes become more prevalent and administratively demanding, PE firms increasingly require specialized expertise in structuring and administration to manage them effectively. Without the support of experts in this space, firms face heightened risks, including regulatory non-compliance, tax inefficiencies or errors, and increased costs, which can undermine the overall effectiveness of their MEPs.

Engaging specialists in trust administration, compliance, reporting, and tax optimization helps ensure MEPs are not only compliant, but also efficient and well structured, allowing PE firms to focus on their core investment objectives while maximizing the impact of their incentive plans.

Authors

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CSC

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About CSC

CSC is the world's leading provider of Business Administration and Compliance solutions. Privately owned and proud to celebrate our 125th anniversary in 2024, we're more than 8,500 people strong, with capabilities in more than 140 global jurisdictions.

CSC's Executive Compensation Team provides EBT, nominee special purpose vehicles (SPVs), and comprehensive specialist support for share plans (including MEPs), pension and savings plans, deferred compensation, and carried interest plans. The team consists of highly skilled and experienced professionals who understand the complexity of ever-changing rules and regulations, and who provide end-to-end trustee management and plan administration services. We focus on the technical administration, governance, and delivery of MEP plans using market-leading, innovative, and flexible systems—and therefore can support a variety of plan types based on company needs.

Our team of experts have been supporting clients' compensation plans, implementation of holding structures, and plan administration for more than two decades, and are trusted by leading legal and other professional advisors across the globe.

About Alvarez & Marsal

Alvarez & Marsal Tax, part of Alvarez & Marsal (A&M), a global professional services firm, is an independent tax practice made up of experienced tax professionals dedicated to providing customized tax advice to clients and investors across a broad range of industries. Its professionals extend A&M's commitment to offering clients a choice of advisers who are free from audit-based conflicts of interest and bring an unyielding commitment to delivering responsive client service. A&M Tax has offices in major markets throughout EMEA, the U.S., Latin America, and APAC.

CLS01272025